Q1 2019 Alta Fox Opportunities Fund, L.P. Quarterly Letter

April 2019

Limited Partners,

In Q1 2019, the fund increased 35.14% gross and 28.10% net compared to 13.65% for the S&P 500. The average net exposure during the quarter was 80.36%. Since inception in April 2018, the fund has returned 47.77% gross and 36.63% net compared to 9.50% for the S&P 500, 2.05% for the Russell 2000, and -2.36% for the Russell Microcap Index. See appendix for further details.

I am proud of the fund's early results. We managed to outperform both the general market and small and micro-cap indices during both a bearish environment last year and thus far in a bullish environment in 2019. Most importantly, we have accomplished these results with strict risk controls, no gross leverage, and a disciplined research process.

While I am pleased the fund is off to a strong start, I attempt to ignore short-term fluctuations and instead focus on the intrinsic value growth in our portfolio holdings, which over the long-run should converge with portfolio performance. I encourage limited partners to do the same (both in times of outperformance and underperformance). I firmly believe that in the long-run, our strategy of buying high-quality and underfollowed businesses at cheap prices will deliver attractive absolute and relative returns.

Selected Portfolio Results

Two big winners, one loser, and a new position are worth discussing in detail.

3Pea International Inc. (TPNL)— as of 4/29/19, the new name is "Paysign, Inc" with ticker "PAYS"

TPNL was highlighted in several of our previous quarterly letters including Q4-18 and was a large positive contributor to performance this quarter. I originally profiled the company at $2.45 and it was at one point the largest position in the fund. It has closed north of $9.00 in recent trading sessions. We continue to hold a long position given our fundamentally bullish view of a largely fixed cost payment processor and program manager attached to an extremely attractive and secularly growing market of plasma donations.

In many ways, TPNL is a perfect example of the type of company I look for on the long side. At $2.45, it was a ~$100M market cap company with little investor transparency and a confusing operating history. However, it had high insider ownership, rapid growth, and was beginning to leverage its fixed costs. I visited the company's headquarters, conducted over 25 industry diligence calls, spoke to competitors and customers, and eventually built a strong fundamental view of the industry in which TPNL operated and the company's advantageous position within that industry. At our peak position size, we owned about 1.5% of the company.

I was able to help introduce the company to a respected investor relations firm which the company eventually hired. The company's investor relations efforts have improved considerably, which along with tremendous operating results, has helped bring the valuation to a level that more closely reflects the unique strengths of their business model. TPNL remains a meaningful position, though we have trimmed our position size in response to the stock roughly tripling from our cost basis. Our original investment thesis can be read here.

The Joint Corp. (JYNT)

JYNT was the company I researched most fervently in the months leading up to the fund's April 2018 launch. I was enamored with their business model, the turnaround under a new CEO, and the attractive unit economics. I visited the company's headquarters in Scottsdale, met with the CEO and CFO, and was prepared to make JYNT the fund's largest position at launch.

However, in the two weeks prior to the launch of the fund, JYNT's share price increased ~30%, dampening my enthusiasm to build a position in size after such a large rally. However, I continued to follow the company and dug deeper into the industry and unit economics.

The sell-off at the end of 2018 hit small-caps particularly hard and JYNT fell from ~$9 to $7 per share. This selloff was despite better than expected operating performance and execution. We took advantage of what seemed like indiscriminate selling in JYNT to make it our largest position in the fund with a cost basis in the mid $7.00's. While we had confidence in the long-term thesis, we also had conviction in a short-term catalyst (namely 2019 performance/guidance). The stock more than doubled from our cost basis in Q1. Like TPNL, we remain long JYNT given our long-term conviction in the business model, though we have somewhat trimmed the position on significant strength.

RumbleOn, Inc. (RMBL)

RMBL has been the biggest loser for the fund since inception—contributing 268 basis points of negative return.

I initiated a position late last year. The story was exciting on the surface: two auto-industry veterans leading a micro-cap company with sales growing triple digits and a competitively advantaged online motorcycle platform business with strong network effects.

The company released disappointing Q3 results and provided weak Q4 guidance that were well below expectations and at the same time announced a transformative acquisition, which put the company in the automotive car wholesale business. The company was also planning to launch an online classifieds business. The stock fell ~50%. It was a somewhat speculative position at the time and sized appropriately, but a 50% move down is always painful.

I doubled my research efforts on the company to assess whether this was a hiccup in an otherwise exciting growth story or a thesis-breaking event. I visited the company's headquarters and met with the CEO. I spoke with the CFO several times. I analyzed their various business lines independently and tried to understand whether the market was misunderstanding the acquisition that was completed and the potential upside. My initial conclusion was that while there were still many uncertainties and risks, the market was not valuing the company's three different segments appropriately (legacy motorcycle business, car wholesale and logistics business, and the company's online classifieds business). I published a 60+ page slide deck outlining the considerable research I did on the company.

Less than a week later after publishing the slide deck, the company filed additional information about the financial profile of their acquired companies and announced an equity raise. This was thesis-breaking and I exited the position immediately.

What changed? First, management credibility. There was always a question as to whether the CEO and CFO of this company were true value creators and visionaries in the industry or whether they were just pretenders and looking for shareholders willing to finance their experiment. When the CFO repeatedly tells investors there is no near-term need for a capital raise and then does a capital raise, it damages credibility. The company also badly missed its own sales guidance multiple times as well as estimates for growth in their classifieds business. Second, the company's proxy statement provided enough information to back into the sales performance of the company's initial legacy motorcycle business, which was well below expectations.

Fundamental investing is often an exercise in patching together the correct narrative from a series of facts and financial figures. For a company like RMBL early in its lifecycle trying to disrupt a massive market with technology, forming that narrative is not easy because there is not a long operating history or great comparable companies. This makes the incremental data points and execution by management even more important. For RMBL, the incremental data points have been negative and the company's execution and credibility have suffered. I think management's initial legacy motorcycle business was not scaling as profitably as they hoped and they decided to shift gears and divert attention away from that underperformance by acquiring a large amount of revenue within a competitive automotive wholesale business. On the last conference call, RMBL management discussed aggregate performance instead of providing the necessary details to parse out what I can only assume was very weak results in their legacy bike business.

The management of RMBL may succeed and successfully disrupt large legacy players in the auto market, but with significantly negative cash flow, a pattern of overpromising and underdelivering to investors, and a constantly shifting business model, it is not a company I can support. I think good investors change their mind when the facts change. With RMBL, the facts changed quickly and we exited our position. While the loss was meaningful, it is still very small relative to our biggest winners and is consistent with our strategy of cutting our losses quickly when a thesis is not playing out as expected.

New Positions

There are several new positions in the portfolio about which I am very excited. I am only prepared to discuss one in this letter.

The ONE Group Hospitality Inc (STKS)

The ONE Group Hospitality Inc. (STKS) is a high-end restaurant owner, manager, and franchisor of high-end steakhouse chains and rooftop bars with good unit economics, a long growth runway for new stores, rapidly accelerating FCF, and a wide discount to peers. This opportunity exists because for most of the company's history, the company's brand value was not realized due to poor execution and strategy by the company's founder. He stepped down as CEO in October of 2017 to allow Manny Hilario, a successful and widely respected restauranteur to become CEO. Hilario immediately accelerated SSS, cut SG&A, and shifted the company towards an asset-light growth strategy which will grow EBITDA ~30% this year and ~20% in the foreseeable future. Today, investors have the opportunity to buy into STKS at ~7x my base case estimate of 2019 EBITDA and a nearly 10% 2019 FCFE yield. We think shares can easily double from the current price through strong EBITDA growth and slight multiple expansion. Our full write-up can be viewed here.

Fund Updates

I was honored to be invited as one of three emerging managers to pitch at the Texas Hedge Fund Conference in Austin, TX in February in front of 200+ investors and a judge panel that included Jim Chanos, Clint Carlson, and James Haddaway. My pitch on The Joint Corp (JYNT), just a week before they announced Q4-earnings and 2019 guidance, won both the audience and judge's award. You can see the full pitch here.

I will be in Las Vegas from April 30th to May 2nd at the Planet Microcap Showcase conference as a panelist and attendee. Please contact me if you are in the area and would like to meet.

Conclusion

I am proud of the portfolio performance thus far and excited about our current positions and opportunity set. The fund has grown faster than I expected since the initial launch, but we are still well below any capacity constraints for our strategy. Importantly, the majority of our incremental investors have come from inbound inquiries, allowing me to focus nearly all of my attention on the portfolio rather than traveling and actively marketing the fund.

Our next capital opening will be June 1st. If you are not a current LP, but are interested in more information about the fund, please email: info@altafoxcapital.com. We welcome referrals for long-term oriented investors interested in our strategy. Investors can sign up for our email distribution list for all future updates and publicly posted ideas here: https://www.altafoxcapital.com/contact/.

"Choosing individual stocks without any idea of what you're looking for is like running through a dynamite factory with a burning match. You may live, but you're still an idiot."
— Joel Greenblatt, The Little Book That Beats the Market

Sincerely,

Connor Haley

Connor Haley

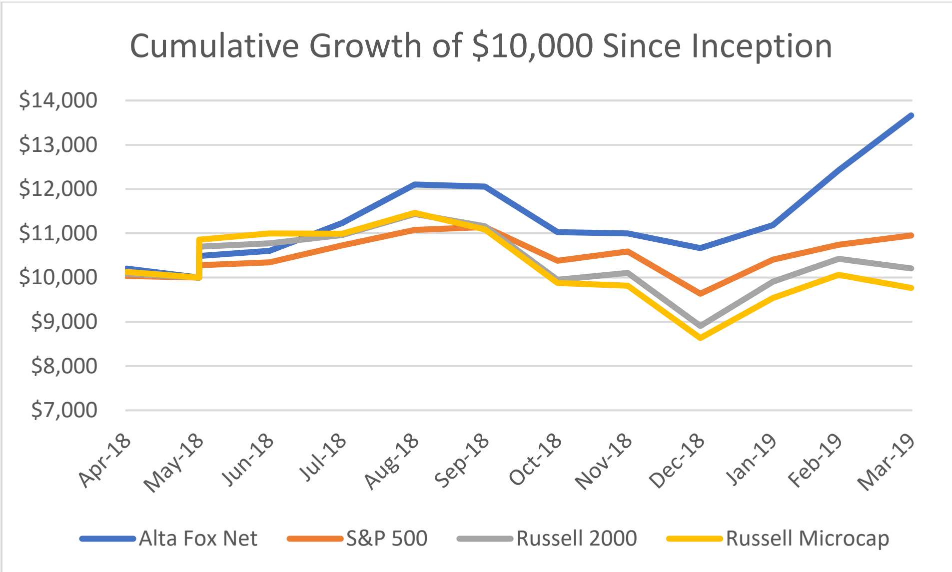
Appendix

Monthly and Quarterly Fund Returns

	Alta Fox Gross	Alta Fox Net	Alta Fox Net Exposure	S&P 500	Russell 2000	Russell Microcap
Apr-18	2.63%	2.03%	48.91%	0.38%	0.86%	1.25%
May-18	3.56%	2.80%	95.06%	2.41%	6.07%	7.22%
Jun-18	1.45%	1.11%	91.32%	0.62%	0.72%	1.30%
Q2-2018	**7.82%**	**6.05%**	**78.43%**	**3.43%**	**7.75%**	**9.97%**
Jul-18	7.36%	5.91%	80.92%	3.72%	1.74%	-0.07%
Aug-18	9.53%	7.77%	81.12%	3.26%	4.31%	4.30%
Sep-18	-0.41%	-0.40%	94.28%	0.57%	-2.41%	-3.26%
Q3-2018	**17.12%**	**13.68%**	**85.44%**	**7.71%**	**3.58%**	**0.83%**
Oct-18	-10.16%	-8.55%	83.02%	-6.84%	-10.86%	-10.90%
Nov-18	-0.22%	-0.25%	71.47%	2.04%	1.59%	-0.64%
Dec-18	-3.59%	-3.01%	77.20%	-9.03%	-11.88%	-12.05%
Q4-2018	**-13.57%**	**-11.52%**	**77.23%**	**-13.52%**	**-20.20%**	**-22.14%**
2018	**9.13%**	**6.67%**	**80.36%**	**-3.65%**	**-10.94%**	**-13.67%**
Jan-19	6.16%	4.86%	76.95%	8.01%	11.25%	10.49%
Feb-19	13.77%	11.08%	82.07%	3.21%	5.20%	5.48%
Mar-19	12.11%	9.97%	89.46%	1.94%	-2.09%	-2.95%
Q1-2019	**35.41%**	**28.10%**	**82.83%**	**13.65%**	**14.58%**	**13.10%**
2019 YTD	**35.41%**	**28.10%**	**79.51%**	**13.65%**	**14.58%**	**13.10%**

Growth of $10,000 Since Inception

	Alta Fox Net	S&P 500	Russell 2000	Russell Microcap
May-18	$10,000	$10,000	$10,000	$10,000
Apr-18	$10,203	$10,038	$10,086	$10,125
May-18	$10,489	$10,280	$10,699	$10,856
Jun-18	$10,605	$10,344	$10,775	$10,997
Jul-18	$11,232	$10,728	$10,963	$10,990
Aug-18	$12,105	$11,078	$11,436	$11,462
Sep-18	$12,056	$11,141	$11,161	$11,089
Oct-18	$11,025	$10,379	$9,948	$9,879
Nov-18	$10,998	$10,591	$10,107	$9,816
Dec-18	$10,667	$9,635	$8,906	$8,633
Jan-19	$11,185	$10,407	$9,908	$9,539
Feb-19	$12,424	$10,741	$10,423	$10,061
Mar-19	$13,663	$10,950	$10,205	$9,764
Cumulative Return	**36.6%**	**9.5%**	**2.0%**	**-2.4%**


Cumulative Growth of $10,000 Since Inception
$14,000
$13,000
$12,000
$11,000
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$8,000
$7,000
Apr-18
May-18
Jun-18
Jul-18
Aug-18
Sep-18
Oct-18
Nov-18
Dec-18
Jan-19
Feb-19
Mar-19
Alta Fox Net
S&P 500
Russell 2000
Russell Microcap

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